



## Venture capitalists growing more confident

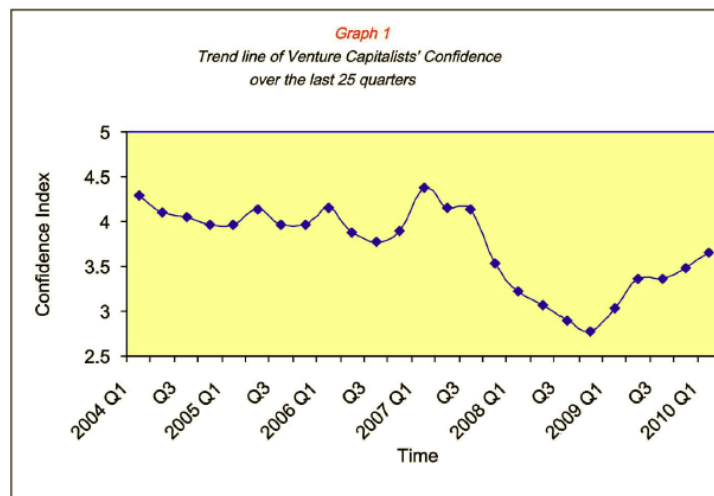
by Lance Whitney

As the world starts to recover from the economic downturn, venture capitalists from such diverse areas as Silicon Valley and China are showing renewed optimism in their industries and regions.

Analyzing the results of an April 2010 survey of 36 San Francisco Bay Area VCs, the Silicon Valley Venture Capitalist Confidence Index for the first quarter of 2010 rose to 3.65 on a 5-point scale, up from last year's fourth quarter mark of 3.48.

On the other side of the Pacific, 16 VCs from China and Hong Kong polled this month registered 3.94 on the 5-point scale of the China Venture Capitalist Confidence Index, a slight gain from 2009's final quarter.

Compiled by Mark Cannice, an entrepreneurship professor with the University of San Francisco School of Business and Professional Studies, both indexes measure how venture capitalists believe IPOs and entrepreneurs in their regions will fare over the next 6 to 18 months. And both indexes are dramatically above their all-time lows of late 2008.



Silicon Valley venture capitalists showing more confidence. (Credit: University of San Francisco School of Business and Professional Studies)

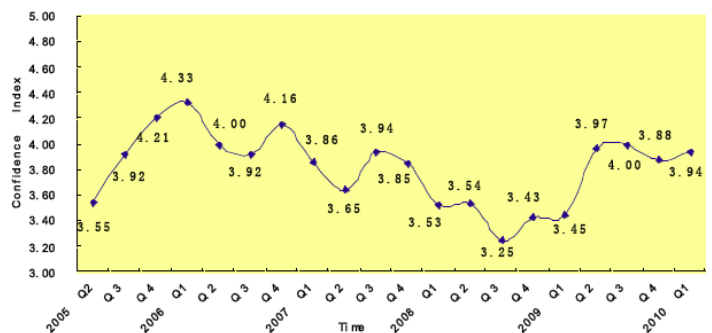
In Silicon Valley, a recovering economy and higher financial markets should pave the way for more opportunities for start-up firms and their backers, according to Cannice. Companies that have cash to spend and stock that's risen in value are also ready to pounce on fresh acquisitions of start-ups in order to stay competitive. As a result, many of the VCs polled are looking at a more robust environment over the next year.

**"I am optimistic looking out for the next 12 months," Sandy Miller of Institutional Venture Partners said in the survey. "There is a nice balance of demand and supply in venture capital. Tech industry fundamentals are much stronger. Innovation in technology is accelerating."**

"We are seeing numerous venture-backed companies (some in our own portfolio) that are experiencing strong growth due to their innovative products," Venky Ganesan of Globespan Capital Partners explained. "These leading companies will both create excellent returns for their investors as well as much needed jobs for our economy. I remain very bullish about the high-growth venture environment in the Bay Area."

Despite the growing optimism, some VCs remain cautious, especially about the long-term outlook for their own markets. Weaker returns from private equity may lead to fewer investments from venture capital funds. As a result, VC funding may be more scarce among promising but less experienced entrepreneurs, according to Cannice.

"We are seeing capital continue to concentrate around the highest quality teams and technologies, thereby increasing the gap between 'have' and 'have not' companies," said Christian Cortis of ATV Capital. "While the trend may lead to a healthier next generation of venture-backed companies, it is raising the bar for first-time entrepreneurs and may lead to a decline in start-up formation."



Chinese venture capitalists showing a bit more confidence. (Credit: University of San Francisco School of Business and Professional Studies)

Meanwhile in China, venture capital investments are starting to receive a boost from the country's strong economic growth, a larger pool of more experienced entrepreneurs, and government support of the venture industry.

"There are simply more entrepreneurs to choose from and high-tech remains a key focus for us," noted David Zhang of Matrix Partners. "Chinese people have always been very

entrepreneurial and now play an important role in China's continued growth."

"The outlook for both fund-raising and investment activity in the venture and growth space in China is positive," said one China-based venture capitalist who wished to remain anonymous. "Investors around the globe continue to find alternatives...to diversify capital, and the economic growth in China is particularly attractive."

However, some VCs expressed uncertainty over future restrictions on investments and the lack of consistent rules from Beijing and China's local governments.

"In many high-tech industries there is still a lot of uncertainty about legal restrictions with different government offices announcing conflicting regulations," explained one anonymous venture capitalist. "Offshore investment is also still uncertain due to restrictions on foreign ownership in certain sectors and mandated contractual structures with local partners rather than direct investment. A new structure has been announced, which seems to be an improvement, though it is untested."

But overall, the renewed confidence seen in each of the two indexes points to positive growth for entrepreneurs and innovators on both sides of the Pacific this year, noted Cannice.